

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

In the Matter of:

JAN 27 2006

GENERAL ADJUSTMENT OF ELECTRIC RATES)
OF KENTUCKY POWER COMPANY) CASE NO. 2005-00341

PUBLIC SERVICE
COMMISSION

NOTICE OF FILING AND CERTIFICATION OF SERVICE

I hereby give notice that I have filed the original and eight true copies of these Responses to the Request for Information by Kentucky Power Company and by the Public Service Commission through Order dated January 18, 2006, with the Executive Director of the Kentucky Public Service Commission at 211 Sower Boulevard, Frankfort, Kentucky, 40601 this the 26th day of January, 2006 and certify that this same day I have served the parties by mailing a true copy, postage prepaid, to the following:

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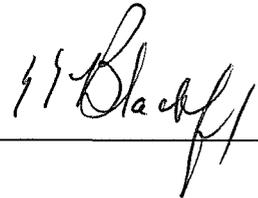
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In the Matter of:

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GENERAL ADJUSTMENT OF ELECTRIC RATES) CASE NO.
OF KENTUCKY POWER COMPANY) 2005-00341

**Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Kentucky Power Company
Case No. 2005-00341**

Index and Location of CDs

The CD provided in the Original only of the Response to the Initial Request for Information of Kentucky Power Company to the Attorney General filed with the Commission, and in each set of these Responses sent to those on the service list, contains the following files responding to the Commission's Requests posed by Order dated January 18, 2006.

Major Attachments for Commission Responses and Company Responses

Attachments for Staff

- Folder: Question 11 – full version of MJM-4
- Folder: Question 15 – net Salvage
- Folder: Question 18 – Workpapers for MJM-5 (KPC Q.27)

**Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Kentucky Power Company
Case No. 2005-00341**

Witness Responsible:
ROBERT J. HENKES

Question 1: Refer to the Direct Testimony of Robert J. Henkes (“Henkes Testimony”), page 7. Mr. Henkes recommends that the Kentucky corporate income tax rate used in this case should be 6.20 percent, and reflects the use of that rate on Schedule RJH-1. However, Schedules RJH-5 and RJH-8 through RJH-30 reflect the use of a Kentucky corporate income tax rate of 6.39 percent. Indicate which rate Mr. Henkes supports and provide any schedule revisions required to reflect Mr. Henkes’ recommendation.

Response: Mr. Henkes recommends the use of a total state income tax rate of 6.20% (which excludes Ohio and West Virginia franchise taxes) in the gross revenue conversion factor on his Schedule RJH-1 and the use of a total state income tax rate of 6.39% (which includes Ohio and West Virginia franchise taxes) in the determination of the pro forma test year net after-tax operating income on his schedules RJH-5 and RJH-7 through RJH-30.

Mr. Henkes notes that if one were to replace the state income tax rate of 6.39% currently reflected on his Schedules RJH-5 and RJH-7 through RJH-30 with a state income tax rate of 6.20%, this would reduce the AG’s currently recommended rate increase of \$15,095,832 by only \$30,000 to a revised amount of \$15,065,652.

**Response of the Attorney General to
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Respondent: OAG Witness Dr. J. Randall Woolridge

2. Refer to the Henkes Testimony, page 9. Mr. Henkes states that Dr. Woolridge has recommended the embedded cost of long-term debt, short-term debt, and accounts receivable financing. However, at pages 2 and 3 of the Direct Testimony of Dr. J. Randall Woolridge ("Woolridge Testimony"), Dr. Woolridge states that Mr. Henkes is testifying to the appropriate senior capital costs rates. Indicate which statement is correct, and provide the AG's recommendations concerning the cost of debt.

Response

Dr. Woolridge's testimony is incorrect in that Henkes is not testifying as to the appropriate senior capital costs rates. The correct statement is that the AG is accepting KPC's embedded cost of long-term debt, short-term debt, and accounts receivable financing.

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 3: Refer to the Henkes Testimony, pages 11 through 13. State whether it is Mr. Henkes' opinion that Kentucky Power Company's ("Kentucky Power") proposed vegetation management program adjustment correctly applies the matching principle for rate-making purposes. Explain the response.

Response: It is Mr. Henkes's opinion that KPCo's proposed vegetation management program incorrectly applies the matching principle for rate-making purposes. For example, it is inappropriate to selectively expand the test year rate base and capitalization with the average cumulative vegetation management program investment level estimated to be incurred in a three-year period following the end of the test year. This creates a mismatch with other (test year) rate base and capitalization components.

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 4: Refer to the Henkes Testimony, page 15. Explain why Mr. Henkes has reduced his proposed capitalization for Kentucky Power to reflect the exclusion of the PSC Assessment from rate base.

Response: Mr. Henkes was of the understanding that the KPSC, in prior Kentucky utility rate cases, excluded the KPSC prepayment balances from both rate base and capitalization. Mr. Henkes' recommended KPSC prepayment removal from capitalization in this case was based on this understanding.

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 5: Refer to the Henkes Testimony, page 33. Explain why Mr. Henkes believes the Consumer Price Index – Urban is more appropriate to use in determining the storm damage adjustment than the Handy Whitman Contract Labor factor.

Response: Mr. Henkes does not believe that the CPI-U is necessarily more appropriate to use in determining the storm damage adjustment than the Handy Whitman Contract Labor factor. Mr. Henkes has simply used the CPI-U as the inflation factor because this has always been KPSC policy. See data request KPSC-3-8(c). As noted on page 33, lines 8-9 of Mr. Henkes' testimony, Mr. Henkes' position in this case is conservative as the normalized storm damage amount calculated based on the CPI-U (\$1,796,350) is approximately \$67,000 higher than the normalized storm damage amount calculated based on the Handy Whitman Contract Labor factor (\$1,729,357).

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 6: Refer to the Henkes Testimony, page 34. Mr. Henkes proposes an adjustment to Kentucky Power's proposed amortization of regional transmission organization formation costs. The Kentucky Industrial Utility Customers, Inc. ("KIUC") witness, Lane Kollen, opposes the inclusion of any amortization expense and the recognition of a regulatory asset for these costs. What is Mr. Henkes' opinion of Mr. Kollen's recommendation?

Response: Upon further review of this issue, Mr. Henkes agrees with Mr. Kollen's recommended position to oppose the inclusion of any RTO amortization expense and the recognition of a regulatory asset for these costs.

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

Question 7: Refer to the Henkes Testimony, pages 58 and 59, and Schedule RJH-29. Explain why Mr. Henkes believes it is necessary to adjust accumulated deferred income taxes to reflect the adjustment to accumulated depreciation.

Response: Please see Mr. Henkes' Schedule RJH-29. The AG's recommended jurisdictional depreciation expense decrease adjustment of \$10,939,242 (line 7) has an associated income tax increase adjustment of \$4,283,096, resulting in a net after-tax operating income increase adjustment of \$6,656,146 (line 9). Mr. Henkes has assumed that this \$4,283,096 income tax increase represents deferred income taxes.

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Witness Responsible:
ROBERT J. HENKES

- Question 8: Refer to the Henkes Testimony, pages 60 and 61, concerning the discounts for electric service provided by Kentucky Power to some of its employees.
- a. Section III, page 9 of 323, of Kentucky Power's application identifies \$58,194 as the amount of "Employee Discount" for most of its residential service classifications with \$1,152 shown on page 11 of 323 as the discount for its residential time-of-day rate classification. State whether this is the same type of employee discount referenced in Mr. Henkes' testimony.
 - b. The sum of the two discount amounts identified in part (a) of this request is \$59,346. State whether Mr. Henkes advocates an adjustment to increase test year normalized revenues by this amount. Explain the response.

Response to a: Based on Mr. Henkes' review in response to the above question, the employee discount amounts of \$58,194 and \$1,152, totaling \$59,346, are shown on Section III, page 10 of 373 in the filing material in Mr. Henkes' possession. These would appear to be the same type of employee discounts as those referenced in Mr. Henkes' testimony pages 60 and 61.

Response to b: To the extent that this total employee discount amount of \$59,346 has reduced the Company's test year per books operating revenues and has not been added back by the Company as a pro forma test year adjustment, Mr. Henkes recommends an adjustment to increase the test year normalized revenues by this amount.

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Witness Responsible:
ROBERT J. HENKES

Question 9: Refer to the Henkes Testimony, Schedule RJH-32. On this schedule Mr. Henkes notes examples of post-test-year adjustments that Kentucky Power could have made, but did not. KIUC's witness, Mr. Kollen, has proposed that the reductions in pension costs and other post-retirement benefit costs shown in Kentucky Power's actuarial studies be recognized for rate-making purposes in this case. What is Mr. Henkes' opinion of these proposals?

Response: Consistent with the ratemaking approach used throughout Mr. Henkes' testimony, Mr. Henkes has not reflected the pension and OPEB expense reductions recommended by Mr. Kollen because they concern projections for the year 2006 that, in Mr. Henkes' opinion, are not sufficiently known and measurable so as to warrant rate recognition.

**Response of the Attorney General to
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Witness Responsible:
ROBERT J. HENKES

- Question 10: Refer to the Henkes Testimony, Schedule RJH-1.
- a. Would Mr. Henkes agree that in previous rate cases, the Commission has included the PSC Assessment in the gross revenue conversion factor? Explain the response.
 - b. Would Mr. Henkes agree that the PSC Assessment should be recognized in the gross revenue conversion factor? Explain the response.
 - c. Provide a revised Schedule RJH-1 that includes the PSC Assessment in the determination of the gross revenue conversion factor.

Response to a: Yes.

Response to b: Yes. The PSC assessment apparently is a function of the utility's revenues.

Response to c: After a review of the case material in his possession, Mr. Henkes has not been able to find the current KPSC assessment rate. Unfortunately, Mr. Henkes is therefore not in a position to provide the Commission with a revised Schedule RJH-1 that would incorporate a gross revenue conversion factor including the appropriate KPSC assessment rate.

**Response of the Attorney General to
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Responding Witness: Michael J. Majoros, Jr.

11. Refer to the Direct Testimony of Michael J. Majoros, Jr. ("Majoros Testimony"), page 8 of 30.
 - a. Explain in detail why Mr. Majoros did not provide his detailed service life study in its entirety as part of his testimony.
 - b. Provide Mr. Majoros's detailed service life study. At least one paper copy must be filed with the original copy of the data responses. The remaining copies may be submitted in electronic format on CD-ROMs.

Response:

- a. The primary reason was to save copying costs. The full document is 620 pages long, and the vast majority of the study deals with transmission, distribution and general plant. Given the fact that he did not recommend any life changes for those functions, he opted to include only the summary pages and those pages showing the calculations for Production plant, reflecting his recommended retirement date change.
- b. Due to the size and volume of the study, a single hard copy of the study has been provided to the Commission and a single hard copy has been provided to the Company. It will be available for review upon request at the Office of the Attorney General to any others who wish to see a hard

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copy. CDs, containing the entire study in both PDF and Excel, are provided to all on the service list and the Commission.

**Response of the Attorney General to
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Responding Witness: Michael J. Majoros, Jr.

12. Refer to the Majoros Testimony, page 9 of 30.
- a. Can excessive depreciation result when positive net salvage value has been incorporated into the depreciation rates? Explain the response.
 - b. Does the definition of excessive depreciation rate on page 9 mean that the recovery of any cost through depreciation rates other than the original cost of the utility plant results in excessive depreciation expense? Explain the response.
 - c. Given the definition of excessive depreciation and excessive depreciation rates, does this define depreciation for regulated utilities as only being capital recovery of utility plant? Explain the response.
 - d. Provide the definition of depreciation, as defined by the Federal Energy Regulatory Commission's Uniform System of Accounts and by the National Association of Regulatory Utility Commissioners in the August 1996 Public Utility Depreciation Practices.
 - e. Does Mr. Majoros agree that the terms "capital recovery" and "service value" are not the same? Explain the response.

Response:

- a. Yes, if the positive salvage estimate is understated the result would be excessive depreciation.

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- b. From the ratepayer's perspective, any cost more than the original cost plus legal AROs is likely to result in excessive depreciation. This is true, unless the ratepayers rather than the Company have the burden of supporting the additional cost.
- c. Capital recovery of original cost plus legal AROs and excess cost of removal incurred by the utility. Mr. Majoros' recommendations do not deny any legitimate capital recovery.
- d. The FERC USoA defines depreciation as follows:

*"Depreciation, as applied to depreciable electric plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities."*¹

The National Association of Regulatory Utility Commissioners in the August 1996 Public Utility Depreciation Practices defines depreciation as follows"

"As applied to the depreciable plan of utilities, the term depreciation means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from

¹ Federal Energy Regulatory Commission, 18 CFR Chapter 1, Part 101, page 319.

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causes that are known to be in current operation and against which the utility is not protected by insurance, and the effect of which can be forecast with reasonable accuracy. Among the causes to be considered are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and the requirement of public authorities.”²

Note the underlined provision in the NARUC definition. Non-legal AROs which may be incurred 20, 30 or 40 years from now cannot be forecast with reasonable accuracy.

- e. Capital recovery is a process, service value is a concept. Mr. Majoros does not object to full capital recovery of the amount a utility actually spends on plant and removal. Mr. Majoros is confident that his recommendations result in full capital recovery under the service value concept. Mr. Majoros also points out that originally, the service value concept was cost less salvage – not “net salvage.”

² NARUC Public Utility Depreciation Practices manual, 1996, page 318.

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Responding Witness: Michael J. Majoros, Jr.

13. Refer to the Majoros Testimony, pages 10 and 11 of 30.
- a. Provide the text of paragraph B73 from the Statement of Financial Accounting Standards (“SFAS”) No. 143.
 - b. At page 11, line 11, Mr. Majoros states, “Current GAAP accounting rules require the \$28.2 million excess collections be reported as amounts owed to ratepayers (regulatory liabilities) until they are spent on their intended purpose.” Provide specific sections of SFAS No. 143 that state the balances contained in the regulatory liability accounts resulting from SFAS No. 143 are amounts owed to the utility ratepayers.

Response:

- a. “B73. Many rate-regulated entities currently provide for the costs related to [legal and non-legal] asset retirement obligations in their financial statements and recover those amounts in rates charged to their customers. Some of those costs relate to [legal] asset retirement obligations within the scope of this Statement; others [non-legal AROs] are not within the scope of this Statement and, therefore, cannot be recognized as [legal AROs] liabilities under its provisions. The objective of including those amounts in rates currently charged to customers is to allocate costs to customers over the lives of those assets. The amount

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charged to customers is adjusted periodically to reflect the excess or deficiency of the amounts charged over the amounts incurred for the retirement of long-lived assets. The Board concluded that if asset retirement costs are charged to customers of rate-regulated entities but no [legal ARO] liability is recognized, a regulatory liability [for non-legal AROs charged to customers] should be recognized if the requirements of Statement 71 are met."

- b. See [inserts] and underlining in SFAS No. 143 paragraph B73 as shown above, also see SFAS No. 71, paragraphs 11 and 11b.

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Responding Witness: Michael J. Majoros, Jr.

14. Refer to the Majoros Testimony, page 13 of 30. Provide all statements and other documentary evidence that Kentucky Power agrees that the amounts Kentucky Power has reported pursuant to the requirements of SFAS No. 143 for non-legal asset retirement obligations represent amounts owed to ratepayers.

Response:

Kentucky Power reported those liabilities to ratepayers in its annual reports to shareholders and the SEC. These reported numbers were audited by the Company's external auditors and are subject to review by the SEC. If Kentucky Power and its external auditors do not believe these are regulatory liabilities, they should not have reported them as such. SFAS No. 71 paragraph 11b. says they are refundable to ratepayers if not spent on their intended purpose. Again, these are audited numbers and report classifications of the Company.

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Responding Witness: Michael J. Majoros, Jr.

15. Refer to the Majoros Testimony, page 15 of 30.
- a. Does Mr. Majoros agree that the proposed charge for cost of removal of \$13.8 million relates to total depreciable plant of \$1,303.1 million? Explain the response.
 - b. What was the original cost of the utility plant retired that produced the 5-year average cost of removal of \$3.2 million? Include all supporting workpapers, calculations, and assumptions used to derive the original cost.
 - c. Has Mr. Majoros prepared any analyses for any retirement of utility plant made by Kentucky Power that compares the cost of removal incorporated into the depreciation rate and accrued for that utility plant with the actual cost of removal incurred at retirement?
 - (1) If yes, provide all analyses.
 - (2) If no, explain why such analyses have not been performed.
 - d. Explain how comparing the proposed \$13.8 million charge for cost of removal on utility plant currently in use with the actual cost of removal for utility plant retired constitutes the analysis the Commission discusses at pages 36 and 37 of its December 22, 2005 Order in Case No. 2005-00042.³

³ Case No. 2005-00042, An Adjustment of the Gas Rates of The Union Light, Heat and Power Company.

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Response:

- a. Yes, see Exhibit____(MJM-1), page 1 of 4.
- b. The total retirements for the 5-year period are \$73.5 million as summarized from pages 4-14 of Exhibit____(MJM-5). The 5-year average for retirements is \$14.7 million. These calculations are included in Attachment Staff 15b to this response. The workpapers used for this and the response to 15c(1) are also included.
- c(1). Yes, see Attachment Staff 15c(1) for the analysis.
- c(2). N/A

Kentucky Power Company

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**Five-Year Average Net Salvage Experience
Based on Henderson Workpapers**

<u>Year</u>	<u>Retirements</u>	<u>Gross Salvage</u>	<u>COR</u>	<u>Net Salvage</u>
<u>Production Plant</u>				
2000	855,616	1,711	203,653	(201,942)
2001	543,659	172,103	(80,513)	252,616
2002	875,114	30,879	55,395	(24,516)
2003	17,253,619	(28,698)	1,578,174	(1,606,872)
2004	<u>3,134,846</u>	<u>39,639</u>	<u>4,362,183</u>	<u>(4,322,544)</u>
5-Year Total	22,662,854	215,634	6,118,892	(5,903,258)
5-Year Avg.	4,532,571	43,127	1,223,778	(1,180,652)
<u>Transmission Plant</u>				
2000	727,893	23,740	53,562	(29,822)
2001	243,225	101,608	823,970	(722,362)
2002	433,622	(31,282)	(54,593)	23,311
2003	590,516	305,945	1,074,786	(768,841)
2004	<u>1,107,137</u>	<u>365,788</u>	<u>204,960</u>	<u>160,828</u>
5-Year Total	3,102,393	765,799	2,102,685	(1,336,886)
5-Year Avg.	620,479	153,160	420,537	(267,377)
<u>Distribution Plant</u>				
2000	7,883,448	1,501,740	213,654	1,288,086
2001	5,934,590	2,190,111	2,918,529	(728,418)
2002	6,806,995	5,075,585	1,403,071	3,672,514
2003	5,434,672	1,560,605	1,192,686	367,919
2004	<u>7,250,554</u>	<u>2,946,107</u>	<u>1,979,653</u>	<u>966,454</u>
5-Year Total	33,310,259	13,274,148	7,707,593	5,566,555
5-Year Avg.	6,662,052	2,654,830	1,541,519	1,113,311
<u>General Plant</u>				
2000	224,558	-	(35,438)	35,438
2001	27,540	-	8,861	(8,861)
2002	-	-	-	-
2003	1,740,509	(100,160)	146,609	(246,769)
2004	<u>12,449,685</u>	<u>1,932,476</u>	<u>-</u>	<u>1,932,476</u>
5-Year Total	14,442,292	1,832,316	120,032	1,712,284
5-Year Avg.	2,888,458	366,463	24,006	342,457
<u>Total Plant</u>				
2000	9,691,515	1,527,191	435,431	1,091,760
2001	6,749,014	2,463,822	3,670,847	(1,207,025)
2002	8,115,731	5,075,182	1,403,873	3,671,309
2003	25,019,316	1,737,692	3,992,255	(2,254,563)
2004	<u>23,942,222</u>	<u>5,284,010</u>	<u>6,546,796</u>	<u>(1,262,786)</u>
5-Year Total	73,517,798	16,087,897	16,049,202	38,695
5-Year Avg.	14,703,560	3,217,579	3,209,840	7,739

Source: "PSALV.dat", "TSALV.dat", "DSALV.dat" and "GSALV.dat", matched to hardcopy of files provided in Henderson Workpapers.

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Summary Analysis
Prepared in Response to Staff Question 15 c(1)

(\$000)

<u>Description</u>	<u>Henderson</u>	<u>Majoros</u>
Cost of Removal in Dep. Rates	\$ 13,788 1/	\$ 3,210 2/
Accrued 3/	28,232	28,232
Actual Cost of Removal		
5-Year Average 4/	3,210	3,210
10-Year Average 5/	3,066	3,066
15-Year Average 6/	3,260	3,260
51-Year (All Data) Average 7/	1,608	1,608

- 1/ Exhibit____(MJM-1), p. 1 of 4. Individual amount by account are shown in the Exhibit.
2/ Exhibit____(MJM-2), p. 1 of 4. Individual amounts by account are shown in the Exhibit.
3/ Exhibit____(MJM-1), pp. 3 of 4 and 4 of 4, and Exhibit____(MJM-2), p. 5 of 5.
4/ Exhibit____(MJM-5), p. 1
5/ Attachment Staff 15c(1), page 2.
6/ Attachment Staff 15c(1), page 3.
7/ Attachment Staff 15c(1), page 4.

Kentucky Power Company

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**Ten-Year Average Net Salvage Experience
Based on Henderson Workpapers**

<u>Year</u>	<u>Retirements</u>	<u>Gross Salvage</u>	<u>COR</u>	<u>Net Salvage</u>
<u>Total Plant</u>				
1995	14,054,928	4,132,610	4,594,361	(461,751)
1996	9,570,154	1,232,118	3,437,057	(2,204,939)
1997	18,107,631	3,661,068	3,163,537	497,531
1998	8,862,242	1,466,719	3,115,498	(1,648,779)
1999	6,397,409	666,929	304,877	362,052
2000	9,691,515	1,527,191	435,431	1,091,760
2001	6,749,014	2,463,822	3,670,847	(1,207,025)
2002	8,115,731	5,075,182	1,403,873	3,671,309
2003	25,019,316	1,737,692	3,992,255	(2,254,563)
2004	<u>23,942,222</u>	<u>5,284,010</u>	<u>6,546,796</u>	<u>(1,262,786)</u>
10-Year Total	130,510,162	27,247,341	30,664,532	(3,417,191)
10-Year Avg.	13,051,016	2,724,734	3,066,453	(341,719)

Source: "PSALV.dat", "TSALV.dat", "DSALV.dat" and "GSALV.dat", matched to hardcopy of files provided in Henderson Workpapers.

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**Fifteen-Year Average Net Salvage Experience
Based on Henderson Workpapers**

<u>Year</u>	<u>Retirements</u>	<u>Gross Salvage</u>	<u>COR</u>	<u>Net Salvage</u>
<u>Total Plant</u>				
1990	9,830,042	3,204,614	3,594,215	(389,601)
1991	7,638,154	1,745,835	3,339,389	(1,593,554)
1992	10,241,542	3,299,585	3,083,080	216,505
1993	9,284,791	1,568,860	4,136,721	(2,567,861)
1994	11,100,618	2,447,066	4,086,471	(1,639,405)
1995	14,054,928	4,132,610	4,594,361	(461,751)
1996	9,570,154	1,232,118	3,437,057	(2,204,939)
1997	18,107,631	3,661,068	3,163,537	497,531
1998	8,862,242	1,466,719	3,115,498	(1,648,779)
1999	6,397,409	666,929	304,877	362,052
2000	9,691,515	1,527,191	435,431	1,091,760
2001	6,749,014	2,463,822	3,670,847	(1,207,025)
2002	8,115,731	5,075,182	1,403,873	3,671,309
2003	25,019,316	1,737,692	3,992,255	(2,254,563)
2004	<u>23,942,222</u>	<u>5,284,010</u>	<u>6,546,796</u>	<u>(1,262,786)</u>
15-Year Total	178,605,309	39,513,301	48,904,408	(9,391,107)
15-Year Avg.	11,907,021	2,634,220	3,260,294	(626,074)

Source: "PSALV.dat", "TSALV.dat", "DSALV.dat" and "GSALV.dat", matched to hardcopy of files provided in Henderson Workpapers.

**Kentucky Power Company
Case No. 2005-00341**

**51-Year (All Data) Average Net Salvage Experience
Based on Henderson Workpapers**

<u>Year</u>	<u>Retirements</u>	<u>Gross Salvage</u>	<u>COR</u>	<u>Net Salvage</u>
Total Plant				
1954	386,801	181,523	74,238	107,285
1955	381,086	187,996	77,145	110,851
1956	374,808	181,838	87,158	94,680
1957	712,676	286,716	152,305	134,411
1958	610,640	246,717	169,685	77,032
1959	742,462	316,260	163,293	152,967
1960	649,132	299,916	178,970	120,946
1961	949,758	441,012	191,505	249,507
1962	669,121	351,021	230,051	120,970
1963	817,314	358,524	208,480	150,044
1964	897,106	310,117	203,225	106,892
1965	1,640,000	504,115	382,314	121,801
1966	1,304,750	506,723	369,569	137,154
1967	1,926,309	532,202	453,183	79,019
1968	1,724,627	688,859	549,204	139,655
1969	2,263,582	745,740	453,492	292,248
1970	1,972,470	459,872	390,850	69,022
1971	1,597,628	600,425	472,610	127,815
1972	1,679,800	818,282	530,307	287,975
1973	2,068,271	901,954	617,883	284,071
1974	1,712,887	1,266,201	575,518	690,683
1975	1,691,650	771,812	583,031	188,781
1976	3,749,061	1,060,978	769,634	291,344
1977	2,814,924	1,336,806	1,041,460	295,346
1978	3,572,706	1,586,865	956,815	630,050
1979	4,607,029	1,550,671	1,474,249	76,422
1980	5,321,950	2,145,215	1,669,119	476,096
1981	7,519,338	2,026,194	2,383,190	(356,996)
1982	4,690,176	1,949,022	2,353,497	(404,475)
1983	5,235,724	1,710,959	1,489,927	221,032
1984	3,149,974	1,328,420	1,645,675	(317,255)
1985	4,080,765	1,410,673	1,891,035	(480,362)
1986	6,147,092	1,796,767	2,004,498	(207,731)
1987	6,630,488	3,215,127	2,146,166	1,068,961
1988	6,723,722	2,434,028	3,873,907	(1,439,879)
1989	11,991,454	7,592,975	2,287,311	5,305,664
1990	9,830,042	3,204,614	3,594,215	(389,601)
1991	7,638,154	1,745,835	3,339,389	(1,593,554)
1992	10,241,542	3,299,585	3,083,080	216,505
1993	9,284,791	1,568,860	4,136,721	(2,567,861)
1994	11,100,618	2,447,066	4,086,471	(1,639,405)
1995	14,054,928	4,132,610	4,594,361	(461,751)
1996	9,570,154	1,232,118	3,437,057	(2,204,939)
1997	18,107,631	3,661,068	3,163,537	497,531
1998	8,862,242	1,466,719	3,115,498	(1,648,779)
1999	6,397,409	666,929	304,877	362,052
2000	9,691,515	1,527,191	435,431	1,091,760
2001	6,749,014	2,463,822	3,670,847	(1,207,025)
2002	8,115,731	5,075,182	1,403,873	3,671,309
2003	25,019,316	1,737,692	3,992,255	(2,254,563)
2004	23,942,222	5,284,010	6,546,796	(1,262,786)
51-Year Total	281,612,590	81,615,826	82,004,907	(389,081)
51-Year Avg.	5,521,815	1,600,310	1,607,939	(7,629)

Source: "PSALV.dat", "TSALV.dat", "DSALV.dat" and "GSALV.dat", matched to hardcopy of files provided in Henderson Workpapers.

Production Net Salvage Experience

<u>Account</u>	<u>Year</u>	<u>Retirement</u>	<u>Gross Salvage</u>	<u>COR</u>
10810000	1960	-	450	3,141
10810000	1961	-	365	250
10810000	1962	-	-	-
10810000	1963	-	-	-
10810000	1964	12,972	2,350	559
10810000	1965	8,393	63	1,353
10810000	1966	28,356	1,639	1,309
10810000	1967	72,923	50,088	207
10810000	1968	128,116	3,717	11,276
10810000	1969	6,226	-	-
10810000	1970	765,565	38,983	20,261
10810000	1971	126,096	2,831	42,474
10810000	1972	26,254	8,641	3,092
10810000	1973	40,145	3,905	76,655
10810000	1974	172,218	661	756
10810000	1975	123,712	8,539	28,002
10810000	1976	1,145,237	9,669	56,912
10810000	1977	753,812	78,585	111,093
10810000	1978	280,923	1,491	20,757
10810000	1979	1,978,089	83,069	278,953
10810000	1980	1,539,921	5,630	126,933
10810000	1981	1,729,730	3,569	573,164
10810000	1982	1,674,621	55,571	704,047
10810000	1983	1,127,403	12,461	49,042
10810000	1984	597,900	724	112,419
10810000	1985	101,983	69,625	537,959
10810000	1986	1,341,809	69,408	10,759
10810000	1987	1,296,541	671,733	386,860
10810000	1988	1,239,413	146,691	1,881,634
10810000	1989	3,675,101	1,495,274	264,645
10810000	1990	1,974,433	435,816	814,536
10810000	1991	1,154,968	25,400	311,112
10810000	1992	2,617,525	866,774	427,592
10810000	1993	3,236,184	(34,358)	1,578,355
10810000	1994	3,969,598	60,472	2,038,522
10810000	1995	6,338,609	1,919,772	2,274,820
10810000	1996	2,883,635	(108,297)	2,268,116
10810000	1997	8,213,501	1,622,235	1,652,784
10810000	1998	1,885,004	(109,746)	2,094,579
10810000	1999	474,672	3,780	8,267
10810000	2000	855,616	1,711	203,653
10810000	2001	543,659	172,103	(80,513)
10810000	2002	875,114	30,879	55,395
10810000	2003	17,253,619	(28,698)	1,578,174
10810000	2004	3,134,846	39,639	4,362,183
Total		75,404,442	7,723,214	24,892,087

Source: "PSALV.dat", adjusted to match Henderson Workpapers, pages 19 and 20 (hardcopy of file).

Transmission Plant Net Salvage Experience

<u>Account</u>	<u>Year</u>	<u>Retirement</u>	<u>Gross Salvage</u>	<u>COR</u>
10850000	1954	34,583	15,298	7,180
10850000	1955	47,135	23,025	7,889
10850000	1956	22,861	5,024	5,258
10850000	1957	134,912	42,741	10,113
10850000	1958	89,413	39,278	23,451
10850000	1959	109,562	56,914	10,968
10850000	1960	120,308	25,114	12,000
10850000	1961	97,570	58,122	19,975
10850000	1962	105,122	48,139	35,762
10850000	1963	81,024	76,939	10,727
10850000	1964	44,999	2,529	8,623
10850000	1965	456,939	129,041	138,735
10850000	1966	202,844	54,393	73,574
10850000	1967	378,070	64,988	112,497
10850000	1968	241,351	13,413	57,522
10850000	1969	600,025	103,002	103,107
10850000	1970	52,004	17,779	12,589
10850000	1971	153,003	55,726	28,344
10850000	1972	166,793	56,538	36,030
10850000	1973	238,120	192,316	49,235
10850000	1974	230,313	339,163	45,869
10850000	1975	137,446	129,176	69,379
10850000	1976	789,389	143,997	32,216
10850000	1977	250,212	225,156	1,431
10850000	1978	422,125	(37,889)	(17,686)
10850000	1979	138,790	60,197	145,231
10850000	1980	740,426	303,867	118,565
10850000	1981	1,235,156	137,039	72,785
10850000	1982	348,126	306,936	146,727
10850000	1983	133,764	137,997	79,939
10850000	1984	248,203	51,497	68,152
10850000	1985	407,649	306,076	38,164
10850000	1986	620,920	22,842	175,660
10850000	1987	205,446	197,229	69,955
10850000	1988	325,128	276,527	110,394
10850000	1989	950,539	370,387	122,039
10850000	1990	455,000	64,159	296,114
10850000	1991	863,065	59,121	327,755
10850000	1992	1,871,867	1,163,291	422,506
10850000	1993	748,707	(228,274)	245,842
10850000	1994	908,689	194,052	92,692
10850000	1995	220,890	42,611	151,723
10850000	1996	(25,138)	(5,644)	(6,225)
10850000	1997	984,775	51,684	39,136
10850000	1998	265,039	284,212	215,982
10850000	1999	1,131,697	231,775	33,535
10850000	2000	727,893	23,740	53,562
10850000	2001	243,225	101,608	823,970
10850000	2002	433,622	(31,282)	(54,593)
10850000	2003	590,516	305,945	1,074,786
10850000	2004	<u>1,107,137</u>	<u>365,788</u>	<u>204,960</u>
Total		21,087,254	6,673,302	5,964,144

Source: "TSALV.dat", matched to Henderson Workpapers, pages 110 and 111 (hardcopy of file).

Distribution Plant Net Salvage Experience

<u>Account</u>	<u>Year</u>	<u>Retirement</u>	<u>Gross Salvage</u>	<u>COR</u>
10860000	1954	345,614	164,293	66,201
10860000	1955	329,795	163,818	68,960
10860000	1956	340,400	175,639	81,844
10860000	1957	560,530	243,234	141,931
10860000	1958	505,375	206,808	144,792
10860000	1959	624,939	259,031	152,087
10860000	1960	492,849	271,181	161,636
10860000	1961	819,969	381,111	170,331
10860000	1962	558,196	299,388	192,682
10860000	1963	706,977	279,116	194,420
10860000	1964	773,027	304,668	189,822
10860000	1965	1,012,221	374,123	239,135
10860000	1966	1,071,099	450,349	285,103
10860000	1967	1,463,163	413,889	342,901
10860000	1968	1,330,710	670,448	479,783
10860000	1969	1,560,135	646,533	347,617
10860000	1970	1,143,715	400,222	357,897
10860000	1971	1,315,603	543,957	401,721
10860000	1972	1,475,429	752,589	490,837
10860000	1973	1,773,250	703,812	491,738
10860000	1974	1,273,997	921,165	527,796
10860000	1975	1,413,889	633,350	485,488
10860000	1976	1,770,503	905,056	680,443
10860000	1977	1,790,525	1,032,217	928,730
10860000	1978	2,839,810	1,622,814	952,797
10860000	1979	2,379,695	1,368,931	1,048,294
10860000	1980	3,067,886	1,455,926	1,423,814
10860000	1981	4,492,306	1,883,382	1,737,241
10860000	1982	2,552,584	1,586,478	1,503,023
10860000	1983	3,917,704	1,560,432	1,361,570
10860000	1984	2,274,942	1,275,047	1,464,480
10860000	1985	3,390,814	1,033,246	1,315,547
10860000	1986	4,122,421	1,703,914	1,814,294
10860000	1987	5,062,869	2,341,368	1,686,747
10860000	1988	5,092,695	2,009,198	1,881,879
10860000	1989	7,285,672	5,727,263	1,888,999
10860000	1990	6,337,485	2,563,490	2,433,166
10860000	1991	5,330,583	1,639,592	2,601,095
10860000	1992	5,047,537	1,220,353	2,236,974
10860000	1993	4,862,356	1,829,402	2,197,784
10860000	1994	5,874,830	2,155,099	1,954,453
10860000	1995	7,390,800	2,159,120	2,119,861
10860000	1996	6,260,150	1,342,053	1,245,388
10860000	1997	8,613,849	1,918,643	1,444,506
10860000	1998	5,385,836	1,292,253	804,413
10860000	1999	4,764,283	440,710	262,682
10860000	2000	7,883,448	1,501,740	213,654
10860000	2001	5,934,590	2,190,111	2,918,529
10860000	2002	6,806,995	5,075,585	1,403,071
10860000	2003	5,434,672	1,560,605	1,192,686
10860000	2004	<u>7,250,554</u>	<u>2,946,107</u>	<u>1,979,653</u>
Total		164,109,276	64,598,859	50,710,495

Source: "DSALV.dat", matched to Henderson Workpapers, pages 237 and 238 (hardcopy of file).

General Plant Net Salvage Experience

<u>Account</u>	<u>Year</u>	<u>Retirement</u>	<u>Gross Salvage</u>	<u>COR</u>
10872000	1954	6,604	1,932	857
10872000	1955	4,156	1,153	296
10872000	1956	11,547	1,175	56
10872000	1957	17,234	741	261
10872000	1958	15,852	631	1,442
10872000	1959	7,961	315	238
10872000	1960	35,975	3,171	2,193
10872000	1961	32,219	1,414	949
10872000	1962	5,803	3,494	1,607
10872000	1963	29,313	2,469	3,333
10872000	1964	66,108	570	4,221
10872000	1965	162,447	888	3,091
10872000	1966	2,451	342	9,583
10872000	1967	12,153	3,237	(2,422)
10872000	1968	24,450	1,281	623
10872000	1969	97,196	(3,795)	2,768
10872000	1970	11,186	2,888	103
10872000	1971	2,926	(2,089)	71
10872000	1972	11,324	514	348
10872000	1973	16,756	1,921	255
10872000	1974	36,359	5,212	1,097
10872000	1975	16,603	747	162
10872000	1976	43,932	2,256	63
10872000	1977	20,375	848	206
10872000	1978	29,848	449	947
10872000	1979	110,455	38,474	1,771
10872000	1980	(26,283)	379,792	(193)
10872000	1981	62,146	2,204	-
10872000	1982	114,845	37	(300)
10872000	1983	56,853	69	(624)
10872000	1984	28,929	1,152	624
10872000	1985	180,319	1,726	(635)
10872000	1986	61,942	603	3,785
10872000	1987	65,632	4,797	2,604
10872000	1988	66,486	1,612	-
10872000	1989	80,142	51	11,628
10872000	1990	1,063,124	141,149	50,399
10872000	1991	289,538	21,722	99,427
10872000	1992	704,613	49,167	(3,992)
10872000	1993	437,544	2,090	114,740
10872000	1994	347,501	37,443	804
10872000	1995	104,629	11,107	47,957
10872000	1996	451,507	4,006	(70,222)
10872000	1997	295,506	68,506	27,111
10872000	1998	1,326,363	-	524
10872000	1999	26,757	(9,336)	393
10872000	2000	224,558	-	(35,438)
10872000	2001	27,540	-	8,861
10872000	2002	-	-	-
10872000	2003	1,740,509	(100,160)	146,609
10872000	2004	<u>12,449,685</u>	<u>1,932,476</u>	<u>-</u>
Total		21,011,618	2,620,451	438,181

Source: "GSALV.dat", matched to Henderson Workpapers, pages 384 and 385 (hardcopy of file).

**Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Kentucky Power Company
Case No. 2005-00341**

Responding Witness: Michael J. Majoros, Jr.

- d. The Commission's December 22, 2005 Order in Case No. 2005-00042 stated:

"However, the AG has provided no analysis of plant retirements or removals that compare the estimated and actual cost."

The following analysis is taken from Mr. Majoros' filing:

	<u>Henderson</u>	<u>Majoros</u>
	(\$000)	
5-Year Retirements ⁴	\$ 73,518	\$ 73,518
5-Year Cost of Removal ⁵	16,049	16,049
Average Cost of Removal ⁶	3,210	3,210
Estimated Cost of Removal ⁷	13,788	3,210
KPC Budgeted Cost of Removal ⁸	2,877	2,877

According to Kentucky Power's response to AG 2-42:

The level of retirements is generally not an important component of the Company's capital forecast. The amount included in the forecast is reviewed for reasonableness and is held constant for the forecast period, unless there would be a good reason to vary it. Cost of Removal is determined by project or blanket through a more detailed process. Removal can have a cash requirement and it is also associated with physical work and requires resource planning. Retirements are merely an accounting entry. In its forecast process the Company has not considered or

⁴ From Exhibit___(MJM-5), pages 4-14. See also response to Staff 15b.

⁵ Id.

⁶ Exhibit___(MJM-5), p. 1

⁷ Henderson from Exhibit___(MJM-1), p. 3 of 4. Majoros from Exhibit___(MJM-2), p. 3 of 5.

⁸ Response to AG 1-129.

**Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
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Responding Witness: Michael J. Majoros, Jr.

factored in, any correlation between retirements and
cost of removal.

This quote demonstrates the very soft nature of Mr. Henderson's inflated forecasts, and is one of the reasons Mr. Majoros believes that Mr. Henderson's future cost of removal forecasts are not reasonable as required by the NARUC definition quoted in the response to Staff DR. 12.d.

**Response of the Attorney General to
Initial Data Request of Commission Staff to the Attorney General
Kentucky Power Company
Case No. 2005-00341**

Responding Witness: Michael J. Majoros, Jr.

16. Refer to the Majoros Testimony, page 23 of 30.
- a. Concerning Mr. Majoros's proposal to use an average of actual cost of removal experience, explain why a 5-year period is reasonable.
 - b. Given Mr. Majoros's proposal for a 5-year average of actual cost of removal experience, how frequently should a utility like Kentucky Power conduct a depreciation study? Explain the response and state how frequently most investor-owned utilities conduct depreciation studies.

Response:

- a. & b. Mr. Majoros believes a 5-year period is reasonable because it is current, and is a period he has used and seen used by others in expense normalization calculations. Periods of 3 to 5 years are also normally used in depreciation studies to detect trends in lives, retirement patterns and net salvage analyses. Periods of 3 to 5 years are also normal intervals between depreciation studies.